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—Khrushchev

Consumer Control or Controlled Consumers

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Consumer Control or Controlled Consumers

DURING THE SLIGHT THAW in the Cold War in 1959 that preceded Premier Khrushchev's visit to this country, the United States was permitted to exhibit in Moscow many of the things that are a part of our everyday life.

Thousands of Russians, for the first time, saw American automobiles and sewing machines. They stared, wide-eyed, at the furnishings and appliances in a $14,000 model home that was similar to millions of American homes.

Russian-speaking American guides reported many Russians could not believe the items on display were available to the average American. They were convinced that only a millionaire could afford such luxuries.

In December 1960, Deputy Premier Novikov, Chairman of the Soviet State Planning Commission, outlined Soviet economic plans for 1961. These plans included a 9.5 percent increase in the output of heavy industry (steel, oil, electric power, etc.) and a 6.9 percent increase in the supply of consumer goods (clothing, shoes, pots and pans, refrigerators, etc.).

Is there any connection between the economic plans outlined by Novikov and the fact that the average Russian regards many of the things we take for granted as impossible to achieve?

In the United States, no man occupies a position comparable to Chairman of the State Planning Commission. At the same time Novikov was outlining plans, however, many Americans were also planning and making predictions. The Bureau of the Budget in Washington, for example, was estimating how the United States would perform in 1961. How much would be collected in taxes? How much would be spent by Government?

Throughout the country, businessmen and economists were planning. They were estimating how many new cars could be sold, how many new telephones would be ordered, how many houses would be constructed.

If Novikov recognized that the Soviet Union might not attain its planned production, he did not indicate it. In contrast, American officials, businessmen and economists admitted their figures were estimates. They could only predict; you—the consumer, producer, and citizen—and millions of other free individuals would make independent decisions. You would decide whether to buy a new car—or a new house. If you purchased a new car, you would decide whether it would be a standard car or a compact. You would decide whether to buy a refrigerator or a radio phonograph. Perhaps you would move or change jobs.

Who Decides What Will Be Produced?

Everyone knows we have been richly endowed with natural resources. We have fertile farm land in the mid-west, oil in Texas; coal in Pennsylvania and West Virginia. We have rivers to carry our commerce and great natural ports to handle our overseas trade.

We have other resources, too. We have capital resources in the form of tools and machines, plants and equipment. We have human resources in our skilled workers, engineers, scientists and businessmen.

We have been so richly endowed, in fact, that it is easy to forget our resources are scarce—when compared with the unlimited wants and desires of people.

It is also easy to forget that resources can be used in different ways and for different purposes. Men and machines can be used to grow wheat—or corn; oil can be converted into gasoline—or chemical products; steel can be used to build automobiles—or to make girders for a bridge.

Because resources are limited, and because they can be used in so many different ways, the people of both the United States and Russia—in fact, the people in every country in the world—are faced with a basic economic problem:

Who—or what—shall decide how resources shall be used? What types and what quantities of goods shall be produced?

When economists refer to this basic problem of what shall be produced in a nation they refer to the distribution or allotment of resources among various uses as the "allocation of resources."

Centralized versus Market Allocation

The problem of what shall be produced—the allocation of resources—is approached differently in the United States than in Russia. This different approach helps explain many other differences in our two countries.

In the Soviet system, Communist planners in the central government make the key decisions on how resources will be used. In the United States, what to produce is determined largely by free consumers in competitive markets and free voters in a democratic political system.

The Russian allocation system, essentially, works from the top down; ours, from the bottom up.

On the one side, there is the State-controlled, State-directed economy; on the other, there is what we call the "free competitive market economy."

The State-Directed System of the Soviet Union

The basic decisions on what shall be produced in the Soviet Union are made by a top planning agency called GOSPLAN—the State Planning Commission of the U. S. S. R.

Guiding the decisions of this group is the decision of the Communist Party on the proportion of resources that should go into military production, the proportion that should go into capital goods, such as plant and equipment, and the proportion that should go into consumer goods.

As a result of basic decisions on what shall be produced, two types of plans are evolved for the economy. One is the long-range plan, covering several years. This plan makes the primary allocation of resources among the various demands upon them. The seven-year plan for 1959-1965 sets production goals in all fields—mining, manufacture, agriculture, transportation, fishing, etc.

The second type of plan is the annual or "supply" plan. This plan is not concerned with the allocation of basic resources, but with methods of achieving goals. For example, if the long-range plan calls for the production of so many tons of steel, the annual or supply plan would cover the supply of materials necessary in making the steel.[1]

These two plans guide the production process.

The Soviet planning and production system is obviously more complicated than it would appear from this brief explanation. It will be examined in more detail later. But State control of the production process is one way of deciding what will be produced.

The Consumer-Directed Market System in the United States

ANOTHER WAY of deciding what to produce is through the operations of an impersonal, competitive "market", such as exists in the United States. Karl Marx and other Communist writers savagely attacked the principles of a market economy. A brief review of these principles, therefore, will not only help clarify differences between the United States and the Soviet Union, but serve as useful background for future discussions of ways in which our system can be made to work better.

Every four years, Americans go to the polls to cast a ballot for the President of the United States. They hope their votes—when combined with the votes of millions of similar-minded citizens—will elect the man they want. But many people who cherish the right to a political vote don't realize the "dollar vote" they cast every time they go shopping helps to determine what shall be produced in the United States.

Failure of an individual to see how his "dollar vote" helps determine the shape of production is understandable. The result of one vote in a big, complex economy that supports more than 180 million people is not readily visible. Another difficulty in seeing the relationship between our purchases and what is

produced may lie in the fact that we, as individuals, are both *producers* and *consumers*.

Suppose, for example, you work in a factory that makes saws. You didn't build the factory, nor decide to produce saws. You rivet wooden handles to a metal blade, but you have no voice in determining whether saws will—or will not—be produced.

As a consumer, though, you personally decide whether to buy a saw. You weigh the cost of a saw against your over-all needs—and against your need for some other tool. Should you buy an axe—and perhaps borrow a saw from your neighbor when you need it?

If you—and thousands of other Americans—cast your "dollar vote" for a saw, we can be quite sure in the United States that steel and wood will be channeled into the production of saws. Conversely, if you—and your fellow Americans—vote against the production of saws by choosing an axe instead, we can be quite sure that wood and steel will be channeled into the production of axes.

The saw manufacturer, it is true, may attempt, through advertising and other means, to persuade you to want and buy his saw. But, in the last analysis, he will have to follow the "election returns." Unless you and other consumers are willing to buy his product at a price that will cover his costs and give him a profit, he will probably stop producing saws.

In short, the decision as to how much steel and how much wood will be used in making saws—and how much used in making axes—can be reached by government planners. This system is used in Russia. Or it can be decided by the preferences, the wants, and the needs of the people as they buy—or fail to buy—in a market. This system is used in the United States.

Our System Works without Central Direction

MOST OF US take our economic system for granted. We expect to go to a store and find the things we want to buy. During such emergencies as war we may find shortages of many items, but in normal times we expect goods to be available to us. It is easy to forget that in our complex economy millions of items are being produced and distributed to millions of people *without central direction or master plan.*

Two key factors are influential in the operation of this complicated system. One is the "price mechanism"; the other, "competition".

The Price Mechanism

MOST OF US are "price conscious". We constantly search for a "bargain". We don't buy certain goods because "the price is too high". We weigh the price of one sweater against the price of another sweater, and weigh the price of a sweater against the price of a jacket.

It is not surprising that we should be so aware of prices because it is what the economists call the "price mechanism" that regulates our economy.

All of us are familiar with the terms "supply", "demand" and "price." Someone has said that if you teach a parrot to say "supply and demand determine price," you have made an economist out of him. All economists would object to this statement as over-simplified, but it does emphasize the importance of the three terms.

In speaking of *supply,* the economist, of course, means far more than a warehouse full of groceries or a crib full of corn. If someone offered the owner of the warehouse $25,000 for the stock, he might sell it immediately. He would not even consider an offer of $5,000. Thus supply in economics is related to price. *It is the amount offered for sale at a specific price.*

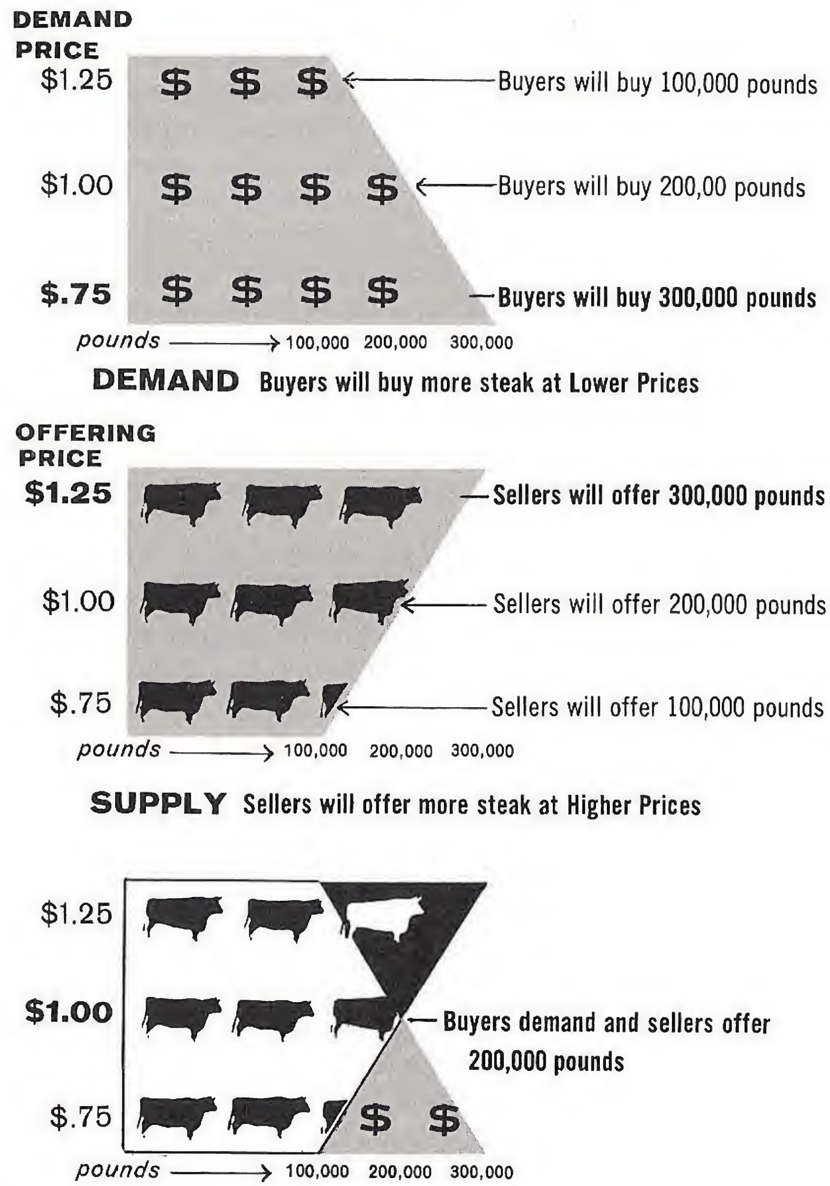
When he uses the term *demand* the economist means more than desires, wishes and wants. It's desire—backed up with money or a contract. If you are shopping for a second-hand car and will pay $800 for it, you represent demand for a car of that price. You do not represent demand for a $1,200 car, even if you would like to own one.

Demand is thus the amount of a product a buyer will purchase at a certain price at a certain time. Or, more broadly, it is the various amounts of a product a group of buyers will purchase at various prices.

In our market economy, supply, demand and price are inter-

FIGURE 1

Market Price of T-Bone Steak



Market Price is determined by both Demand and Supply related. Like three balls in a bowl, if one moves, one or both of the other tend to move.

Figure 1 illustrates the inter-action of supply, demand, and prices.

Purchases of some products, such as T-bone steak, might change markedly with small changes in price; purchases of other products, such as penicillin, might change comparatively little with price changes. A toy manufacturer might quickly expand his output as prices increase, but an entire growing season might elapse before the supply of cucumbers reflects price changes.

Economists have spent a great deal of time and effort studying how prices are set in various types of demand and supply situations, but such refinements need not concern us here. We are primarily concerned with the basic laws of supply and demand, with which most of us are familiar. We know from experience, for example, that when there are more buyers for a product than the quantity available for purchase the price tends to rise.

Let's go back to your job at the saw factory. A businessman who felt there was a demand for saws and a chance for profitable production hired you. He purchased machinery, constructed or rented a building, bought steel and wood. The firm started making saws and selling them through hardware stores all over the country.

If the businessman controls his costs and makes saws at a price that people will pay, he may come out with a profit. If so, he will be encouraged to continue the process, to buy more wood and steel, to make more saws. If there is a brisk demand for saws, he will be inclined to expand his factory.

Conversely, if he overestimates the demand for saws or fails to control his costs, he may not be able to sell the saws his factory has produced. If you and other consumers change your minds about saws and buy axes instead, he will have to cut back on his saw production. Instead of a profit, he may suffer a loss.

Summed up in more economic terms we can say:

If the demand for a product rises, the short-term effect is

for the price to rise. These higher prices mean more profits for producers, and more of the product will be produced. Eventually, the additional supply catches up with demand, and again prices fall. And so do profits.

On the other hand, if there is a larger quantity of a product available than there are people who want to buy it, the price tends to fall and less will be produced.

In either case, supply and demand forces tend to be brought into balance—and the balancing force is free and flexible prices. Obviously, flexible prices and flexible profits are all-important in this adjustment process. They are necessary signals to keep our economy growing and to channel our resources into the production of goods that have been "voted for" by consumers in competitive markets. There is no need to pass a law, or wait for a dictator to die or be overthrown, to get responses to shifts in consumer demand. The market system encourages the catering by producers to the infinite variety of human tastes and desires.

Competition

THE ACTION AND REACTION of supply, demand and price in determining what shall be produced works well, of course, only if there is competition; that is, healthy rivalry between buyers and between sellers in open markets with uncontrolled prices.

Economists sometimes draw up a theoretical world in which there would be "perfect competition." In this world, each buyer and seller would be so small in comparison with the total market that his individual actions would have no significant influence on prices.

In this fictional world of perfect competition, there would be no restrictions by either government or individuals on prices or on the movement of economic resources from one area to another, or from one use to another.

This perfectly competitive market also assumes another impossibility—that all buyers and sellers make rational and wise decisions on the basis of all pertinent facts.

Obviously, perfect competition in a perfectly free market never existed—and never will.

Economists differ on the extent of competition in the United

States. Today, our economy is neither monopolistic nor perfectly competitive. But strong rivalry runs throughout it.

Our ability to move goods quickly and easily from one area to another, the growth in knowledge of what is available, and the improved mobility of the population helps break down local monopoly.

Competition is also intensified as research develops new products. Several kinds of synthetic rubber compete with natural rubber. Our grandmothers relied chiefly on cotton, wool and silk. Now we have a vast array of new synthetic fibers, including nylon, orlon, dacron, rayon in several forms, and numerous others.

Food takes a variety of forms – frozen, condensed, or powdered. Margarine competes with butter; vegetable fats compete with animal fats. Natural gas competes with oil and coal. Hydroelectric power competes with all three. Nuclear energy looms on the horizon.

In the construction industry we have a growing volume of substitute materials for brick, stone and wood, including a great variety of insulating material–wallboard, laminated wood, plastics and wall coverings. Aluminum competes with steel and both compete with brick, stone and wood.

Some writers on competition have pointed out that many producers today use trademarks, special packaging and other techniques to differentiate their product from one produced by a competitor and to make the consumer "brand conscious." But "product differentiation" generally does not permit the product to escape competition. Ford Motor Company has a monopoly on the production of Fords, and General Motors has a monopoly on the production of Chevrolets. Neither has a monopoly on the production of motor cars. Nor does the automobile industry in the United States have a monopoly in the building of automobiles, let alone on the production of all means of transportation.

Competition runs throughout our economy. You compete with other workers for jobs and promotions, and increasingly, American workers are competing with workers in other countries. Similarly, one manufacturer competes with another in attracting better workers and in bidding for raw materials against other companies in the United States and against companies located in foreign countries.

The important point to remember here is that competition is an essential part of the market system in which prices provide a series of interrelated guides and signals. As prices shift in response to the law of supply and demand, they guide shifts in natural resources, labor and machinery from the production of one item to the production of another.

And, most important, underlying these shifts are the desires and the wants of the American people.

How Competition Promotes Progress

All production is designed for use. The biggest machines and the smallest tools are created and used only because they help produce something that somebody wants.

Since few of us have sufficient income to satisfy all our wants, we shop around among the goods and services which the economy creates. We seek the most for each dollar spent. We search for the *best* merchandise and the *best* services at the lowest cost.

Under this pressure, every business must try to develop new and better products and to increase efficiency in production and distribution. To survive, every business must try to reduce costs, through increased efficiency, so that it can sell its products at a price that attracts buyers and still yields profits. At the same time, businessmen must always be ready to take advantage of profit opportunities arising from shifts in demands.

A good illustration of the way our complex system of competition underlies the high living standards that have been achieved in the United States is furnished by the television industry.

At the end of World War II, television sets in American homes were numbered in the hundreds. In 1948, sets with very small screens were available only at extremely high prices. Less than one out of every 40 homes had a television set.

Five years later the number of sets in use was approaching 25 million; the size of the screen on the average set had doubled; and the price of the set had been cut in half—despite a substantial increase in the general level of materials and labor costs.

At the $600 price, only the well-to-do were in the market for television sets. With mass production came improved quality and lower costs.

These lowered costs were passed on to the public in the form of lower prices, *not out of charitable impulses but because it was profitable to do so.* Lowering the price of the set tapped a vast market. Furthermore, the individual producer of television sets was forced to reduce prices in line with reduced costs or lose his customers to rival manufacturers.

Within a few years producers and consumers, following free market price signals, built a great industry and changed the recreation habits of the American people.

Equally important, the free market not only gave the consumer a choice between different sizes and makes of television sets, it left him free to choose between a television set, a home movie projector, a record player, or nothing at all—that is, it left him free to save his money or to invest it in any way he pleased.

Competition is not without its costs. It may involve a high rate of business failures. It may inflict losses on workers and investors. And yet, on net balance, the case for competition is clear.

In the United States, there are some ten million individual separate enterprises (including agriculture) that produce millions of different items.

In other words, there are some ten million centers of initiative and enterprise, ten million places where experiments may be tried. In these enterprises, people with an "urge to get ahead" are constantly stumbling on, designing, or inventing new things, new products, new ways of cutting costs. Successes are imitated, and under competition, they must be imitated.

"Without competition," said President William McKinley at the turn of the century when the American people were concerned about the growth of giant trusts, "we would be clinging to the clumsy and antiquated process of farming and

manufacture and the methods of business of long ago, and the twentieth would be no further advanced than the eighteenth century."

"Competition," said Henry Ford II, more than half a century later, "is the keen cutting edge of business, always shaving away at costs."

Government Affects the Market System in the United States

OUR ECONOMY, of course, is not a pure market economy. Government influences what is produced in the United States.

The Governmental sector of the economy purchased almost 20% of the entire national output in 1960. The effect of these purchases in determining what should be produced was essentially the same—on a much larger scale—as other purchases in the market. By casting "dollar votes" government directed the flow of resources into roads or missiles or schools. It was bidding against private users of the resources, and the price system worked much as though individuals were bidding for their use.

In addition to determining directly by its purchases the production of some products, government influences production in many other indirect ways. Taxing and spending programs affect decisions of both consumers and producers. Tariffs, lending programs, minimum wage laws, price supports for farm products, and an almost endless number of other programs and regulations change the pattern of production from what it would be under a pure market economy.

The role of Government in the American economy will be discussed more fully in later pamphlets.

How Soviet Planners Decide What to Produce

ALTHOUGH KARL MARX AND OTHER Communist writers savagely attacked the market economy, they did not make clear exactly how their future economy was to be organized. They did say it could *not* be an economy "of free trade, free selling and buying."

In theory, the elimination of the market might sound comparatively simple. Let the State take over the functions performed by the free market. Let the State set prices. Let the State "balance" supply and demand. Let the State determine what shall be produced, how it shall be produced and who gets what.

In practice, substituting State decisions for the millions of decisions that the market makes automatically everyday without central direction has proved troublesome, to say the least.

Leaders of the Russian Revolution tried to blot out every trace of the market principle. Between 1919 and 1921 they tried to put all production and distribution under central direction. It was a colossal failure, resulting in administrative chaos and appalling shortages.

During the 30 years of Stalin's harsh rule, however, a centralized system in which so-called ministries were placed in charge of industry was hammered out. Since 1953, Stalin's successors have continually modified the system, but these modifications have not resulted in major decentralization in any basic sense.

The heart of the economic system in Russia is still central allocation of resources by the State Planning Commission (Gosplan.)

This allocation is carried out through economic plans. Long-term targets as determined by top Communist planners are the basis for planning. To achieve these targets, annual or supply plans are developed which allocate, at least on paper, necessary materials and capital investment.

The process of plan construction is complicated. It involves the State Planning Commission of the U.S.S.R. (Gosplan) and subordinate planning commissions (also called Gosplan) in each of the Soviet Republics, as well as *sovnarkhozy*—regional economic councils which took over many of the functions of the ministries in 1957.

Theoretically, a plan starts at the bottom with estimates of capability and needs by individual firms. These are consolidated as they go up the chain of command until they reach

the National Planning Commission (Gosplan). The National Planning Commission balances need and capabilities in one area against needs and capabilities in another—and all of them against the over-all goals of the Soviet Union.

Eventually, a final approved plan is sent down through channels to the more than 100 *sovnarkhozy* that blanket the Soviet Union.

Each *sovnarkhoz* then exercises close and detailed control over the many individual factories, or "enterprises" that are located in its area, although it is neither independent nor autonomous in any real sense.

The individual factory is primarily responsible only for technical production. The *sovnarkhoz* not only supervises technical matters but also appoints, or confirms the appointment of, top personnel of the factory. Within the broad targets set from above, it determines the factory's production program. It shifts funds, equipment, materials and, to some extent, personnel within its jurisdiction, and is active in conducting research, the introduction of new processes and products, and setting prices for them.[2]

To sum up, the State Planning Commission allocates scarce commodities to the Republic Planning Commissions. The Republic Planning Commissions, in turn, allocate to the *sovnarkhozy*, and the *sovnarkhozy* allocate to the individual enterprises.

Obviously, this description over-simplifies a complex organization. Although an estimated 72 per cent of production is handled through the *sovnarkhozy*, some production (about 6 per cent) such as atomic energy is the responsibility of national agencies. Other production (about 7 per cent) is the responsibility of Trusts and Ministries of the Republics, and still other production (about 15 per cent) the responsibility of local groups.[3]

The Communist Party exercises control at every level.

Priorities Assigned

In practice, of course, plans are being continually "revised" as differences begin to appear between *planned* production and *actual* production. Russian planners attempt to cope with this problem by assigning "priorities" to products which they regard as shortage items. All necessary supplies and machinery for such production are also given top priority.

The problems that arise in production as a result of state allocation of materials rather than market allocation of resources will be explored more fully in a later pamphlet. But observers generally agree that one reason for Russian success in certain fields is that they allow production of consumer goods and agriculture to "take up the slack." In other words, what is needed for missiles, for jetliners, for heavy production is taken—and what is left is used in consumer goods.

Jay Lovestone, Director of International Publications AFL-CIO, put it this way to a Congressional Committee:

> The Soviet economy serves first and foremost the interests of the Communist dictatorship. At home, the Soviet economy is geared above all else to maintaining and strengthening the power of the Communist Party ruling clique. Abroad, the Soviet economic system is harnessed to aggression, imperialist expansion, and world conquest.
>
> The Soviet economy rests on top priority for the development of heavy industry—at the expense of consumer goods industries and agriculture.
>
> The Soviet economy is essentially a war economy financed and maintained through intense exploitation of the workers (low wages and speedup), the peasants (compulsory deliveries at low prices) and the consumers (high prices and scarcity of goods).[4]

The same thought has been expressed by Nate White, Business and Financial Editor of *The Christian Science Monitor*, who concluded after a study of the Russian economy: "The Soviet Union is on a forced-draft, wartime basis in power-significant industries. It employs tight allocations and priorities. It compresses the need of the people into minimal consumer goods and comforts. Its whole effort is directed toward military and economic domination of the world."[5]

In some ways, the Russian system could be compared to a greatly expanded system of wartime controls that developed in the United States during World War II. Many consumer

goods became scarce or non-existent here as the government allocated materials into war production. Just as we utilized tightly knit, centralized authority in the Manhattan Project to develop the atom bomb, Russia has used tightly knit centralized authority (along with much technology borrowed from the West) to attain the heavy industry targets her planners set.

This concentration on a few power-significant industries helps explain the different reactions reported by visitors to the Soviet Union.

Visitors who inspect a plant that has been given high priority may be impressed with the production. Others who inspect lower-priority installations may be struck by the magnitude of Soviet backwardness, poverty, sweat-shop labor, managerial bottlenecks, deception, corruption and obvious inefficiencies.

Production Patterns in the Soviet Union and in the United States

A CUSTOMARY STARTING PLACE in any comparison of two national economies is their Gross National Product (GNP).

How the Gross National Product is determined will be discussed more fully in Pamphlet 6 *(The Big Picture)*. But, essentially, the Gross National Product is the market value of total production in a nation—*the sum of all the goods and services produced in one year.*

A comparison of GNP between two countries is always difficult and it is made more difficult by the dissimilarities between the Soviet and the United States economies. Most experts who present statistics on Russia preface their remarks by pointing out that Communist statistics are notoriously unreliable, and are frequently inflated for propaganda purposes.

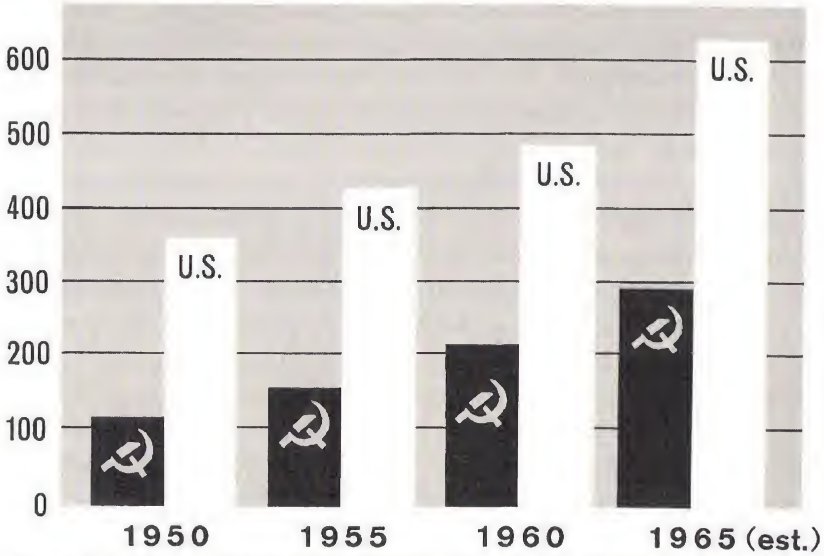
The majority of American experts on Russia have, however, accepted as reasonably reliable the estimate made by the Central Intelligence Agency to the Congressional Joint Economic Committee in November 1959. This estimate placed the Soviet Gross National Product (expressed in dollar terms) at about 45 percent of that of the United States. It is generally

FIGURE 2

Gross National Product—USA/USSR

in billions of 1958 dollars

1950 to 1965



SOURCE: U. S. Congress, Joint Economic Committee, *Comparison of the United States and Soviet Economies* (1959) and *Survey of Current Business*.

agreed, too, that their Gross National Product is growing at a faster *rate* than that of the United States. In June 1961, President Kennedy placed the Soviet GNP at about 47 percent of ours.

Fundamental differences in the methods of allocating resources in the Soviet Union and the United States are clearly illustrated in the composition of the Gross National Product—an analysis of what is really produced.

Some experts have estimated that:

- The U.S.S.R. is devoting some 15 to 20 percent of its total productive resources to military and military-related expenditures, as compared to about 9 percent in the United States. In dollar amounts, we are spending about the same.
- About 30 percent of the Soviet GNP is reinvested, compared to about 18 percent in the United States. In dollar terms, the Russians are reinvesting about three-fourths as much as we are in plant and equipment, but about half of their investment goes to industries which support the military effort. In America, about one-fourth of our investment is directed toward the growth of heavy industry.
- Less than 60 percent of Soviet GNP is allocated to consumption, whereas two-thirds of our GNP is taken by consumer expenditures. Since the Soviet GNP is less than half as large as our GNP and its population almost 20 percent higher, this means than the per capita income in the United States is about $1,750 a year, and in the Soviet Union, only $500 to $600.[6]

Standards of Living

ALTHOUGH MUCH Russian industrial development has come at the expense of the consumer, it is quite generally agreed that pressure from consumers for a higher scale of living is building up. While neither in America nor in Soviet Russia are most consumers concerned with the shape or style of heavy industry or war materials, they are concerned with the availability and quality of the things they want and need.

We must, therefore, compare the market system with the planned system from the standpoint of meeting consumer desires.

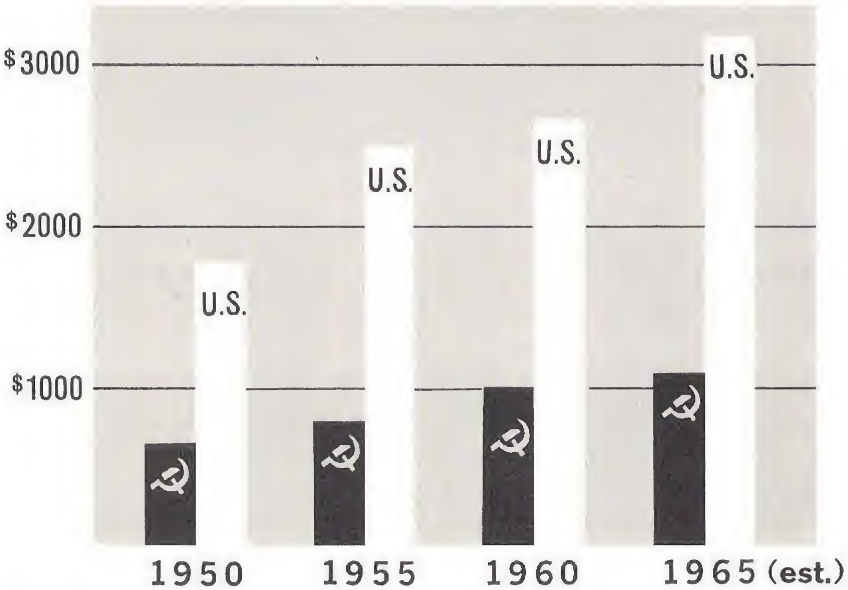
In a *very limited* sense, consumers in the Soviet Union make their purchases in a market. That is, the people have some choice. It is not a market as we know it, however, because the goods are produced and sold through State agencies and are priced by the State. Nor does demand affect supply through price changes, as in our market.

Even a dictatorship cannot afford to ignore consumers. And Premier Khrushchev has repeatedly held out the promise of an ever higher standard of living for his people. "The time is not distant," he proclaims, "when the Soviet Union will emerge in first place in the world in total output and in per capita production, which will secure our people the highest living standard in the world."

How far increased pressure from the Russian people will go in forcing the diversion of resources to the production of consumer goods is still uncertain. Most observers agree, though, that increasing attention is being given to consumer goods.

FIGURE 3

Gross National Product per person USA/USSR
1950-1965 in 1958 dollars



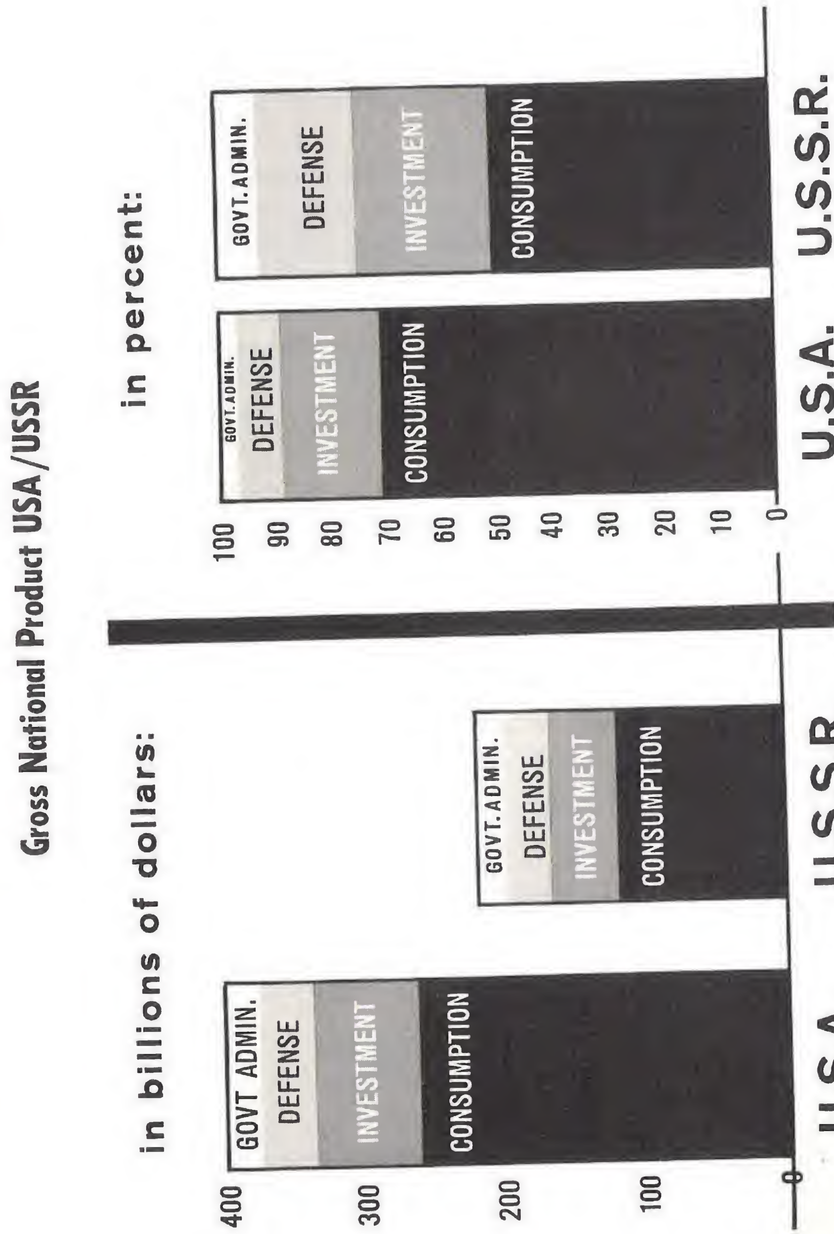
SOURCE: U. S. Congress, Joint Economic Committee, *Comparison of the United States and Soviet Economies* (1959) and *Survey of Current Business*.

Many agree, also, that increasing attention to consumer goods will create problems in the planning process which eventually may require drastic changes in its operations.

Writing in the *New York Times*, Max Frankel said:

> Searching criticism in the Soviet press itself has pointed up some of the problems. For it is one thing to reckon a miner's daily norm or even a steel mill's annual quota in tons per day or month. But how to gauge the plan for round and square kitchen tables and green and orange lampshades? For high-heeled shoes and open-toed shoes? And how to relate them to consumer demand?
>
> The planners' only answer thus far has been to calculate most consumer goods plans—for factories, wholesalers and retailers—in their products' assigned ruble value. On the books, therefore, trade is conducted not in terms of ten pairs of red shoes, sizes 35 and 36, flats, sandals, and pumps, but simply of 4,000 rubles of shoes.

FIGURE 4



SOURCE: U. S. Congress, Joint Economic Committee. Comparison of the United States and Soviet Economies (1959). Based on 1955 figures.

Factories, under this system, are far more successful in fulfilling their plans by fashioning just any old shoe from a good, expensive leather than they would be with the production of twice as many inexpensive and attractive shoes. Having filled their plans they ship the goods to the Government wholesaler and apply for bonuses.

So it goes at furniture factories, where massive and lavishly veneered tables count for much more than simple, serviceable kitchen stools, and where one heavy and clumsy metal bed is the planner's equivalent of three lightweight streamlined cots. The wholesalers, too, reckon their plans—and bonuses—in this way and blithely take all they get from factories and apportion it to the buffer retail outlets below.

The cries of the retailers have been anguished ones indeed. The director of Moscow's GUM (the state department store) has mercilessly denounced factories for continuing merrily to produce not only outdated but ancient household goods, for arbitrarily stopping the production of useful and popular items and disdainfully ignoring spare parts (which obviously count for little on the plan.) Other sellers have reported that they are being told bluntly: Take what you get! They, too, of course, must fill their plans and cannot risk antagonizing the distributors.

There have been some radical suggestions about how to break out of the vicious circle. Some have suggested that stores and wholesalers actually be permitted to "buy" from factories that which they feel able to sell. But plans then would have to be reckoned in profits and the entire supply-and-demand scheme would introduce an alien element of "free enterprise" that Soviet planners will not and probably cannot embrace.

And that is why, when the chips are down, it must be the highest Government and party councils, the Kremlin itself, that decrees a more streamlined shoe, or shelf space in the refrigerator door, and no more fringed lampshades.[7]

Dr. Walt Rostow, economist, has compared the living standards in the United States with those in Russia as follows:

Something like the following appears to be true:

Soviet housing standards per family about a fourth of the American average; food consumption per head somewhat better than one-half; clothing, a bit less than one-half; medical services, public parks, etc., similar to American standards.

In durable consumers' goods and travel, the Soviet standard of living is, as it were, just entering the competition.

The prospects for a significant improvement in Soviet food, shelter, and clothing for the next decade are good; and certain types of durable consumers' goods are under rapid expansion.

No serious effort is now planned to manufacture and diffuse the automobile on a mass basis; and new housing will remain principally large urban apartment buildings.

Except in a few particular categories (fish, woolen fabrics, and butter) there is little likelihood that Soviet consumption per capita will exceed the American figures, down to 1965.

Taken all-in-all, a rise in the Soviet standard of living from something like one-third to about 40 percent of the American level is to be anticipated over the next decade.[8]

Economists recognize that comparing living standards in one country with those in another is difficult. In addition to the great variation that may exist between one group of the population and another group in the same country, there are other problems of measurement.

Writing in *Foreign Affairs*, Marshall I. Goldman of the Economics Department, Wellesley College, points out:

To say that the Soviet Union will produce 2,500,000 or 4,500,000 washing machines in 1965 is meaningless unless there is some way of comparing their qualitative features with those of a washing machine produced in another country.

At the present time, almost all Soviet models are the wringer type with only a limited washing capacity. To say that by 1965 they will be producing 60 percent or 120 percent as many units as we did in 1959 . . . may not have much meaning.

And is it possible to compare Soviet housing with that in the United States? Our emphasis is on private homes while in the Soviet Union it is on semi-private apartments with jointly-shared kitchens and toilets.

Finally, because the quality of production is often so poor in the Soviet Union, all comparisons remain to some degree suspect even if one finds commodities somewhat comparable in nature.

Mr. Goldman concludes:

> The standard of living will doubtless continue to improve in the Soviet Union . . . However, a personal visit into any Soviet apartment off the main street or a drive through any Russian village will answer the question whether the Russians will overtake the United States during the next few seven-year plans . . . This is not to say that the Russians will never have a stock of consumer durables as large as exists in the United States, but considering the distance to be overcome, and the past record in regard to consumer goods, the possibility of the Russians catching up within the present generation seems very remote.[9]

Freedom in the Two Systems

ANY ECONOMY of course must be judged partially on its ability to provide a high standard of living for its people—to produce what the people want. Our market economy has proved that it can do so. The State-controlled system of the Russians has proved it can improve the standard of living of its citizens. It has not proved as yet that it can continue indefinitely to do so without drastic changes in its character. In fact, there have been widespread reports of the emergence of such "capitalistic devices" as sales, price cuts on overstocked items, use of credit for purchasing durables, fashion modifications to conform to consumer preferences. There have even been reports of "product differentiation" in attempts to establish improved quality control.

The Russian economy conceivably could have made even faster progress under a competitive system of free markets. In fact, its rate of growth has been below some other nations such as Japan and West Germany in the postwar period.

The key questions, however, go beyond standards of living to an even more fundamental question: Does the individual exist to serve the State, or does the State exist to serve the individual?

In a free society, the individual is assumed to know his own best interests. The good sense and the conscience of the people are relied upon.

The development of the individual is recognized as the goal of society.

Most Americans are alert to the dangers in loss of freedom of religion, of education, or of the press. It is harder to see the connection between the existence of a free market for goods and services and the preservation of individual freedom.

And yet, political Communism and economic Communism have always gone hand in hand.

Obviously, detailed planning is a failure unless the plans are carried out. When a master plan is substituted for the market the governing authorities have found it necessary to try to influence the church, the teacher, and the editor in order to carry out the master plan.

The Overstreets have pointed out:

> Communist strength is in the spectacular—whether this be a revolutionary coup-d'etat—sweeping five-year plan, vast public building, world-wide propaganda or sputnik. Its weakness is in the area of the small and simple and ordinary . . . Communism is the sort of a system in which leaders think nothing of making a three-hour speech or even a six-hour speech, but in which the most powerful bureaucracy in history feels threatened when a handful of students get into a free-for-all discussion of Marxism.[10]

The same point is made in a story that comes from behind the Iron Curtain. After the Communist Party orator had expounded on the virtues of Communism for several hours, he shouted: "And we will soon be able to travel to the moon." "Yes," said a small voice from the rear, "but when will we be able to travel to Vienna?"

The market is not a perfect mechanism, of course. It does not change human nature and, therefore, the impossible should not be expected of it. But it is one of the indispensable foundation stones of a free and peaceful society, because it organizes human energies and resources on the basis of *voluntary* cooperation rather than on the basis of *force*.

In this pamphlet we have seen how the desires of consumers translated through competitive markets day by day, week after week, determine what shall be produced as compared to a system in which the State determines what will be produced.

The next pamphlet will explore the ways in which competitive markets serve to guide the use of resources and labor in producing useful goods and services in contrast to the controlled system of the Soviets.

NOTES

1. Cf. "The Centralized Planning of Supply in Soviet Industry," Herbert S. Levine, *Comparisons of the United States and Soviet Economies.* Joint Economic Committee, Congress of the United States. 1959. p. 152.
2. Cf. "Planning: Backbone of a Nation," Gregory Grossman, *Saturday Review.* New York. January 21, 1961. p. 23-25.
3. *Saturday Review.* January 21, 1961. p. 22.
4. "Basic Distinctions Between the Soviet Economy and the American Economy". Jay Lovestone, *Comparisons of the United States and Soviet Economies.* Joint Economic Committee, Congress of the United States. 1959. p. 548.
5. "The U.S.S.R.: Economic Giant?" Nate White, *The Christian Science Monitor,* December 28, 1960.
6. *A Forward Strategy for America,* Robert Strausz-Hupe, William R. Kintner, and Stefan T. Possony, Harper. 1961. p. 328-333.
7. "The Russian Customer is Sometimes Right," Max Frankel, *The New York Times Magazine,* November 29, 1959.
8. "Summary and Policy Implications," Walt W. Rostow, *Comparisons of the United States and Soviet Economies.* Joint Economic Committee, Congress of the United States. 1959. p. 592.
9. *Foreign Affairs,* Council of Foreign Relations, Inc. New York. July 1960. p. 634-637.
10. *What We Must Know About Communism,* Harry and Bonaro Overstreet. W. W. Norton & Company, Inc. New York. 1958. p. 132.

CONSUMER CONTROL OR CONTROLLED CONSUMERS

Suggested Reading

BAUER, RAYMOND, ET AL., *How the Soviet System Works,* Vintage Russian Library. 1960, $1.25. Assesses the social and the psychological strengths and weaknesses of the Soviet system based on hundreds of interviews and questionnaires administered to refugees from the Soviet Union. Produced for the Harvard project on the Soviet Social System.

DRUCKER, PETER F., *The New Society: The Anatomy of the Industrial Order,* Harper & Brothers, New York. 1950, $5.00. One of the best analyses of the nature of the American success story in free competitive enterprise. Strong on the role of the businessman as producer and organizer of the forces making for effective productivity.

HOFFMAN, PAUL G., ET AL., *A Free Dynamic Society,* The Macmillan Company, New York. 1951, $1.00. An excellent philosophical analysis of the "secret" behind the values of the American free market economy and the business executive's responsibilities.

RANDALL, CLARENCE, *A Creed for Free Enterprise,* Atlantic, Little, Brown & Co., Boston. 1952, $2.75. An exposition of the free market economy with an urgent appeal for better economic education.

SCHWARTZ, HARRY, *Russia's Soviet Economy,* Prentice-Hall. 1954, $9.00. A comprehensive and well-documented work by a *New York Times* expert on Russia.

United States Chamber of Commerce, *Demand, Supply and Prices,* Washington, D. C. $.50. An analysis and explanation of supply and demand, and the concept of normal price.

United States Chamber of Commerce, *Free Markets and Free Men,* Washington, D. C. $.50. A detailed explanation of what the free market is, how it works, and how it is essential to human freedom. Discusses desirable functions of government and what can be done to maintain both economic progress and human freedom.

United States Chamber of Commerce, *The Ethics of Capitalism,* Washington, D. C. 1961, $.50. States the case for capitalism in terms other than economic. Shows how capitalism is a diffuser of power and a guardian of individual freedom and liberty.

United States Congress, Joint Economic Committee, *Comparison of the United States and Soviet Economies,* U. S. Government Printing Office. 1959, $1.90. Papers submitted by experts on the Russian economy to the Subcommittee on Economic Statistics before which they appeared as panelists.

WRIGHT, DAVID MC., *Capitalism,* McGraw-Hill Co., New York. 1951, $3.25. One of the best statements of competitive capitalism in terms of both efficiency and other values. Explores basic problems.

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